Plantation

Inventory Beginning To Ease From Record High

MARKET WEIGHT
(Maintained)

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Highlights

- MPOB's Jan 26 data revealed that palm oil inventory declined to 2.82m tonnes, driven by lower production and stronger exports.
- Maintain MARKET WEIGHT on the sector as downside risks to current CPO prices of ~RM4,100/tonne appear limited amid expectations of declining inventory, although upside remains capped by the lack of demand catalysts.
- Top picks: Hap Seng Plantations (BUY/Target: RM2.45) and KLK (BUY/Target: RM22.25).

Analysis

- **MPOB's Jan 26 data.** End-stocks fell 7.7% mom to 2.82m tonnes from record-high levels in Dec 25, which was slightly below market expectations. The inventory drawdown was driven by lower production and stronger exports.
  - Production declined 13.8% mom to 1.58m tonnes, as Malaysia entered the seasonal low production period. However, output remained at an elevated level, increasing 27.3% yoy, due to improving yield and favourable weather condition. The mom decline in production was relatively in line with our production survey and market estimates. Lower output was recorded across all regions, with Sabah notably recording a lower-than-average decline in its monthly production (-9.3% mom vs Malaysia's -13.8% mom).
  - Exports continued their positive momentum, rising 11.4% mom, in line with cargo surveyors' estimates. The higher exports were likely due to: a) improved demand from selected markets such as India and the Middle East as palm oil regained price competitiveness against other vegoils, and b) higher availability of supplies.
  - End-stocks decreased to 2.82m tonnes vs 3.05m tonnes in Dec 25, following the lower production and rising exports as well as stable domestic consumption.
- **Outlook.** We expect production declines to accelerate in Feb 26 in line with seasonal trends, before output begins to recover in 2Q26. While early exports surveys by Intertek and Amspec for 1-10 Feb 26 indicate a modest decline of -10% to -14% mom, we expect Malaysia's exports to improve ahead of the festive season and potentially register flattish mom growth. As such, we expect inventory levels to continue easing from the current elevated base, which will provide support to CPO prices that are currently at ~RM4,100/tonne.

Segmental Rating

Segment	Rating
Malaysia	MARKET WEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.26	2.45
Kuala Lumpur Kepong	KLK MK	BUY	19.90	22.25

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 10 Feb 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024 (x)	PE 2025F (x)	PE 2026F (x)	Yield 2025F (%)	ROE 2025F (%)	Market Cap. (RM)	Price/ NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.26	2.45	8.4	Dec-25	8.5	9.4	8.9	5.3	10.1	1,807.3	0.8
SD Guthrie	SDG MK	HOLD	5.78	5.90	2.1	Dec-25	24.2	20.7	23.7	2.8	10.6	39,972.8	1.8
Genting Plantations	GENP MK	HOLD	5.12	4.95	(3.3)	Dec-25	14.2	13.0	13.2	3.8	6.1	4,593.5	0.9
IOI Corporation	IOI MK	HOLD	4.03	4.30	6.7	Jun-26	19.4	18.8	17.6	2.7	12.7	25,329.4	2.1
Kuala Lumpur Kepong	KLK MK	BUY	19.90	22.25	11.8	Sep-25	25.4	18.9	17.5	2.5	4.2	22,161.8	1.6
Kim Loong Resources	KIML MK	HOLD	2.38	2.25	(5.5)	Jan-26	14.1	14.0	14.3	7.0	18.5	2,340.7	2.4
Sarawak Oil Palms	SOP MK	HOLD	3.98	3.15	(20.9)	Dec-25	7.5	7.8	7.9	2.4	12.2	3,367.4	0.8

Source: Bloomberg, UOB Kay Hian

MPOB'S Jan 26 Statistics

(m tonne)	Jan 25	Dec 25	Jan 26	mom % chg	yoy % chg
CPO Production	1.24	1.83	1.58	(13.8)	27.3
Palm Oil Domestic Use	0.28	0.32	0.36	14.5	28.2
Palm Oil Exports	1.17	1.33	1.48	11.4	26.3
Oleochemical	0.23	0.28	0.22	(21.2)	(3.7)
Biodiesel	0.03	0.01	0.02	60.5	(44.4)
Palm Oil Imports	0.09	0.03	0.03	(2.9)	(63.5)
Palm Oil Stocks	1.58	3.05	2.82	(7.7)	78.2
CPO Price (RM/tonne)	4,672.50	4042.5	4212.4	4.2	(9.8)

Source: MPOB, UOB Kay Hian

Jan 26 CPO Production By Region And State

(m tonne)	Jan 25	Dec 25	Jan 26	mom % chg	yoy % chg
Johor	0.20	0.28	0.24	(14.9)	20.4
Pahang	0.18	0.29	0.25	(16.5)	34.9
Perak	0.12	0.16	0.15	(8.3)	24.8
Negeri Sembilan	0.04	0.06	0.05	(10.2)	39.2
Selangor	0.04	0.05	0.04	(8.4)	17.2
Terengganu	0.02	0.04	0.03	(21.8)	58.8
Kelantan	0.02	0.03	0.03	(15.9)	59.9
Kedah	0.02	0.02	0.02	(0.0)	19.1
Other States	0.01	0.02	0.02	3.6	53.3
Pen Malaysia	0.64	0.96	0.83	(13.4)	29.2
Sabah	0.30	0.44	0.40	(9.3)	33.5
Sarawak	0.30	0.43	0.35	(19.2)	16.8
East Malaysia	0.60	0.87	0.75	(14.2)	25.1

Source: MPOB, UOB Kay Hian

Valuation/Recommendation

- **Maintain MARKET WEIGHT.** We believe that CPO prices have limited downside at current levels (~RM4,100/tonne), supported by muted supply outlook in both Malaysia and Indonesia, as well as elevated festive demand in 1Q26 which should see inventories correct at an accelerated pace. However, upside potential remains capped by the absence of the B50's demand uplift. We maintain our 2026 CPO price assumption of RM4,250/tonne.
- **Top picks are Hap Seng Plantations and KLK.** We continue to like HAPL for its inexpensive valuations and still-attractive dividend yields of 5-6%, while KLK is regarded as a laggard pick with its downstream business expected to record a progressive earnings recovery.

Sector Catalyst/Risk

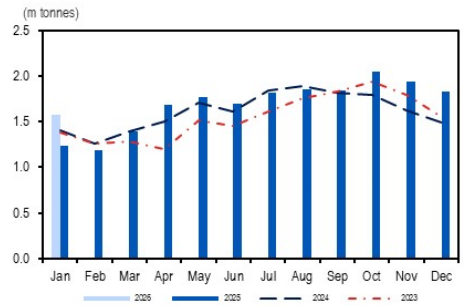
- Weaker-than-expected industry output driving tighter inventories and higher CPO prices.
- Acceleration/resumption of regional biofuel policy expansion plans driving incremental consumption demand.
- Improved downstream business outlook for vertically-integrated planters.

CPO Price Assumptions (RM/tonne)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306
Our Forecast:	
2026F	4,250
CPO Price:	
MPOB @ 10 FEB 26	4,111
BMD 3rd Month Contract	4,095

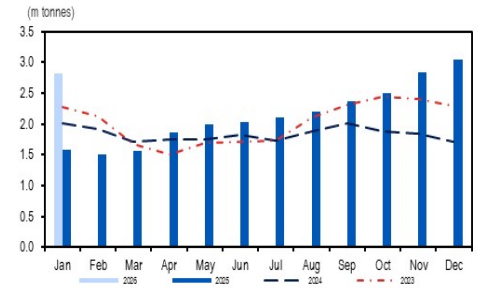
Source: UOB Kay Hian

Malaysia Palm Oil Production



Source: MPOB, UOB Kay Hian

Malaysia Palm Oil Stocks



Source: MPOB, UOB Kay Hian

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